

Department of Social and Health Services

DP Code/Title: M2-5R Banking Fees

Program Level - 060 Economic Services Admin

Budget Period: 2001-03 Version: F3 060 2001-03 2003 Sup Agency Req

Recommendation Summary Text:

The Division of Child Support (DCS) has increased the number of child support payments while simultaneously decreasing the time the funds stay in the local bank account. In addition, DCS has increased the use of electronic fund transfers by 56 percent over a three and one-half year period. These factors plus the recent downturn in interest rates have created a situation where costs are out pacing earnings.

Fiscal Detail:

Operating Expenditures

	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding			
001-1 General Fund - Basic Account-State	0	111,000	111,000
001-A General Fund - Basic Account-DSHS Fam Support/Chi	0	216,000	216,000
Total Cost	0	327,000	327,000

Staffing

Package Description:

One of the division's goals is to ensure that custodial parents receive their child support payments in a timely, accurate and efficient manner. In order to achieve this goal, DCS has actively marketed electronic payment options such as electronic fund transfers, and the DCS secure card. Over the last 3 1/2 years the division has increased the number of electronic payments from 77,089 to 120,241 a 56 percent increase.

The division maintains a contractual relationship with a financial institution to provide banking services for the Department of Social and Health Services (DSHS) Child Support Services Account, Fund 753. Due to a number of factors, the costs associated with banking services are out-pacing earnings.

The factors contributing to the increased bank costs and the reduction in earnings include:

- Very low interest rates. In September 2000 DCS was earning six percent on regular deposits and seven percent on a certificate of deposit. Current regular deposits are 1.65 percent and 3.5 percent on certificate of deposit.
- The federal requirement to disburse funds within 48-hours of receipt (see 42 USC 654B(c)(1), which became effective October 1, 1998.
- An increase in the number of electronic funds transfers.

In order to reduce the gap between costs and earnings, DCS:

- Acquired a short-term certificate of deposit to boost earnings, and
- Continues to closely examine the monthly billing statement for errors or irregularities.

These strategies have helped to reduce the rate at which the deficit grows each month, but they have not offset the total deficit.

Narrative Justification and Impact Statement

How contributes to strategic plan:

The service provided by our financial institution directly impacts our ability to provide custodial parents with timely and accurate child support payments. Additionally, the contract requires that DCS reimburse the financial institution for costs in

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excess of earnings at the end of each fiscal period.

Performance Measure Detail

Program: 060

Goal: 01F Help people achieve self-sufficiency.

No measures submitted for package

Incremental Changes

FY 1

FY 2

Goal: 02A Safeguard and improve the well-being of children.

No measures submitted for package

Incremental Changes

FY 1

FY 2

Goal: 02F Maintain safety net for people in need.

No measures submitted for package

Incremental Changes

FY 1

FY 2

Reason for change:

It is estimated that costs will out pace earnings during Fiscal Year 2003.

Impact on clients and services:

Currently, the financial institution provides DCS with basic banking services. These services include depository and withdrawal services, zero balance transfers, weekly check register data, weekly images of checks cashed, stop payments and limited reconciliation services. These services are essential to perform prudent fiduciary functions.

Impact on other state programs:

None

Relationship to capital budget:

None

Required changes to existing RCW, WAC, contract, or plan:

None

Alternatives explored by agency:

The division recently went through the Request for Proposal (RFP) bidding and selection process. The financial institution selected had the lowest fee structure. Accordingly, selection of an alternative bank would not alleviate the shortfall.

DCS continues to streamline its operations in order to reduce the costs associated with banking services. However, most costs noted are driven by volume and cannot be reduced without adverse impacts on clients.

Budget impacts in future biennia:

It is assumed that the net annual costs of \$326,725 will be ongoing.

Distinction between one-time and ongoing costs:

All costs are ongoing.

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Effects of non-funding:

If this request is not funded, DCS would have to eliminate services thereby increasing the likelihood of audit findings and decreasing services provided to our customers such as check look up, address changes, stop payment processing, forgery processing and other one-on-one customer support.

Additionally, if we were to default on our contractual obligation entered into with our financial institution, future child support payments could be jeopardized by the financial institution refusing to honor support checks.

Many families depend on support payments for day-to-day living expenses such as power, medical and rent payments. If payments were disrupted, numerous families would not be able to pay for basic necessities.

Expenditure Calculations and Assumptions:

Estimated Regular Earnings	\$ 55,646
Estimated Certificate of Deposit Earnings	\$ 150,000
Estimated Banking Fees	\$ (662,371)
Estimated Fiscal Year 2003 Shortfall	\$ (456,725)
Previous 2000 Supple Request Funded	\$ 130,000
Adjusted Annual Shortfall: Total	\$ (326,725)

<u>Object Detail</u>	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding			
E Goods And Services	0	327,000	327,000

DSHS Source Code Detail

Overall Funding	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Fund 001-1, General Fund - Basic Account-State			
<u>Sources</u> <u>Title</u>			
0011 General Fund State	0	111,000	111,000
Total for Fund 001-1	0	111,000	111,000
Fund 001-A, General Fund - Basic Account-DSHS Fam Support/Chi			
<u>Sources</u> <u>Title</u>			
5631 Title IV-D Child Support Enforcement (A) (66%)	0	216,000	216,000
Total for Fund 001-A	0	216,000	216,000
Total Overall Funding	0	327,000	327,000